# CONTENTS

Executive Summary ...................................................................................................................................... 1

Introduction................................................................................................................................................... 2
  Background ............................................................................................................................................... 2
  Purpose ...................................................................................................................................................... 4
  Scope and Methodology ............................................................................................................................ 5

## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

General Environment .................................................................................................................................... 6

Credit Card Setup and Maintenance ............................................................................................................. 7
  Credit Card Setup ...................................................................................................................................... 7
  Maintenance .............................................................................................................................................. 8

Credit Card Monitoring .................................................................................................................................. 9
### APPENDICES

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Personnel Contacted</td>
</tr>
<tr>
<td>B</td>
<td>Campus Response</td>
</tr>
<tr>
<td>C</td>
<td>Chancellor’s Acceptance</td>
</tr>
</tbody>
</table>

### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CC</td>
<td>Credit Card</td>
</tr>
<tr>
<td>CO</td>
<td>Office of the Chancellor</td>
</tr>
<tr>
<td>CSU</td>
<td>California State University</td>
</tr>
<tr>
<td>EO</td>
<td>Executive Order</td>
</tr>
<tr>
<td>FISMA</td>
<td>Financial Integrity and State Manager’s Accountability Act</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>ICSUAM</td>
<td>Integrated California State University Administrative Manual</td>
</tr>
<tr>
<td>OUA</td>
<td>Office of the University Auditor</td>
</tr>
<tr>
<td>P-Card</td>
<td>Procurement Card</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor (OUA) during the last quarter of 2012, the Board of Trustees, at its January 2013 meeting, directed that Credit Cards (CC) be reviewed. The OUA previously reviewed CC in the biennial Financial Integrity and State Manager’s Accountability Act (FISMA) audits, the last of which was performed on campus in 2009.

We visited the San Francisco State University campus from January 28, 2013, through February 22, 2013, and audited the procedures in effect at that time.

In our opinion, the fiscal, operational and administrative controls for CC activities in effect as of February 22, 2013, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

GENERAL ENVIRONMENT [6]

Campus credit card policies and procedures did not contain all information required by systemwide policy. For example, the campus did not have written procedures for the personal liability credit card program.

CREDIT CARD SETUP AND MAINTENANCE [7]

Campus procedures for personal liability credit card setup needed improvement. For example, personal liability credit card applications were not always approved by the applicant’s supervisor and the unit’s business manager or chair. Additionally, the campus did not always retrieve credit cards or close credit card accounts in a timely manner upon a cardholder’s separation from the university.

CREDIT CARD MONITORING [9]

The campus did not monitor the use of personal liability credit cards to ensure that only business-related expenses were incurred and that payments were made in a timely manner.
INTRODUCTION

BACKGROUND

The California State University (CSU) allows authorized employees to pay for certain types of expenses using campus credit cards. The use of campus credit cards provides an alternative to traditional procurement methods and offers a number of benefits, including reducing the administrative expense associated with procuring and paying for low-dollar goods and services, allowing for greater flexibility in selecting vendors, and expediting the receipt of purchases. CSU credit card programs are not intended to replace existing purchasing methods, but rather to supplement them.

CSU credit card programs began with the implementation of the CSU Procurement Card (P-Card) program for the purchase of low-dollar goods and services. Since then, credit card offerings have expanded, and a variety of programs are now available. CSU credit card programs can generally be divided into two types of offerings: university liability credit cards and personal liability credit cards.

University liability cards are those in which the campus pays the bill centrally. Common types of university liability cards employed by the campuses include P-Cards, used for the purchase of low-dollar goods and services; travel cards, used for business travel expenses; fleet cards, used for fleet-related expenses such as fuel, vehicle maintenance, and repairs; and one-cards or hybrid cards, which allow employees to use a single card to pay for more than one category of expenses. Some campuses also use P-Cards in the accounts payable department to make payments on traditional invoices. This reduces operations costs by eliminating checks and increases credit card rebates earned by the campuses.

Personal liability cards are obtained by an employee through a CSU contract; however, the employee pays the bill, and is personally liable, for the credit card. Such cards minimize the burden on an employee’s personal finances when business expenses must be incurred by the employee and subsequently reimbursed. Personal liability cards are commonly issued for business travel expenditures.

The CSU currently contracts with US Bank as its primary credit card vendor and receives rebates from US Bank based on total credit card spending and promptness of payment. Total CSU credit card spending with US Bank in fiscal year (FY) 2011/12 was approximately $90.6 million; there were approximately 5,910 CSU credit card users during this time period. The total CSU rebate earned for FY 2011/12 was $1.4 million.

The systemwide Contract Services and Procurement department at the Office of the Chancellor (CO) is responsible for managing the US Bank credit card contract, communicating credit card industry trends to campuses, verifying and distributing campus rebates, and administering components of the credit card program. Systemwide Financial Services at the CO is responsible for maintaining CSU accounting policies, including those policies related to credit card usage.

Executive Order (EO) 760, Procurement Cards, dated October 16, 2000, establishes the CSU policy regarding the use of procurement cards. It provides minimum standards for the use of procurement cards and gives the chief financial officer of each campus the responsibility for developing and maintaining policies and procedures governing the use of procurement cards to ensure strong internal controls and observance of good business practices.
Integrated California State University Administrative Manual (ICSUAM) §3103.03, *Procurement Cards*, effective January 1, 2012, provides additional details on university liability credit card program required elements, which include a designated procurement card administrator responsible for oversight of the campus procurement card program and a procurement card operations manual specific to the campus.

ICSUAM §3103.04, *Corporate Cards*, effective January 1, 2012, provides additional details on the personal liability credit card program required elements, which include approval requirements for use of the cards and the stipulation that the cards be used only for bona fide business expenses that directly serve the university.

Historically, administration of campus credit card programs was reviewed by the CSU Office of the University Auditor (OUA) as part of cyclical audits based on the Financial Integrity and State Manager’s Accountability Act (FISMA) of 1983, passed by the California Legislature and detailed in Government Code §13400 through §13407.

Beginning in calendar year 2010, cyclical FISMA audits were reevaluated and discontinued due to a change in the OUA audit risk assessment methodology. Using the new procedure, the OUA worked with CSU campus executive management to identify high-risk areas on each campus. In addition to these high-risk areas, the OUA audit plan considered high-profile areas and core financial areas to assure comprehensive audit coverage. Credit cards were selected as the core financial area to review in 2013.
Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to CSU credit card programs and to determine the adequacy of controls over related processes to ensure compliance with Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- Administration of campus credit card programs is well defined and includes clear lines of organizational authority and responsibility and documented delegations of authority.
- Policies and procedures pursuant to campus credit card programs are current and comprehensive, and distribution procedures are effective.
- Campuses have informed credit card holders of how to report disputes and fraudulent transactions in a timely manner.
- Access to automated systems used for credit card administration is controlled and limited to authorized users.
- Procurement card purchases are accurately reconciled, in a timely manner, to bank statements and financial systems.
- Credit card payments are made accurately and in a timely manner to the card-issuing bank.
- Credit card rebates are properly accounted for.
- Security and retention of departmental records is adequate.
- Initial set-up of credit cards and changes made to existing credit cards are properly approved; credit cards are issued in accordance with campus and CSU policy; and credit card purchasing thresholds are effectively set and adhered to.
- Training for credit card users and approvers is appropriate.
- Campus processes ensure that credit cards are deactivated when employees are terminated or transferred.
- Processes are in place for the monitoring and reviewing of credit card purchases to ensure compliance with CSU and campus policies.
- Campuses have adequately controlled their financial exposure from credit card transactions.
- Credit card purchases are made in accordance with campus and CSU policies, and there is proper enforcement of sanctions for policy violations.
INTRODUCTION

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Audit Agenda Item 2 of the January 22 and 23, 2013, meeting of the Committee on Audit stated that Credit Cards (CC) includes the administration of campus credit card programs. Proposed audit scope would include, but was not limited to, review of credit card administration, compliance with campus policies and procedures, approval to use credit cards, monitoring and review of credit card purchases, enforcement of sanctions for misuse, and processes to deactivate credit cards upon employee termination or transfer.

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with Board of Trustee policies and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from July 1, 2011, through February 22, 2013.

We focused primarily on the internal administrative, compliance, and operations controls over CC activities. Specifically, we reviewed and tested:

- Administration of the campus procurement card program, including documented delegations of authority and current policies and procedures.

- Access to systems used in credit card administration.

- Processes to review and reconcile credit card bank files to campus bank statements and the general ledger.

- Credit card set-up, maintenance, and deactivation policies.

- Monthly credit card reconciliations, monitoring and review of credit card purchases, and enforcement of sanctions for violations of credit card policies.

- Credit card purchase transactions to ensure compliance with campus and CSU policies.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

Campus credit card policies and procedures did not contain all information required by systemwide policy.

We found that:

- Procurement card policies and procedures did not include a final card reconciliation and return-of-card process as part of personnel clearing procedures.
- Procurement card policies and procedures did not define the role of the approving official to ensure that a cardholder’s subordinate or peer was not designated as an approver.
- The campus did not have written policies and procedures for the departmental travel card program.
- The campus did not have written procedures for the personal liability credit card program.

Executive Order (EO) 760, Procurement Cards, dated October 16, 2000, states that campus procurement card policies and procedures must contain personnel clearing procedures that specifically address a final card reconciliation and return-of-card process and define the role of the approving official to ensure that a cardholder’s subordinate or peer is not designated as an approving official.

Integrated California State University Administrative Manual (ICSUAM) §3103.03, Procurement Cards, effective January 1, 2012, states that it is the policy of the California State University (CSU) that procurement cards be used to improve the efficiency, flexibility, and convenience related to purchasing and paying for goods and certain approved services. Campuses must prepare written procedures that implement this policy. The procurement card program may also include the use of procuring travel related goods and services by allowing such services on the procurement card or by issuing a separate card under the systemwide procurement card contract specific to such use. All travel use will be governed by this policy.

ICSUAM §3103.04, Corporate Cards, effective January 1, 2012, states that it is the policy of the CSU to facilitate acquisition of personal liability business credit cards, commonly known as corporate cards, for employees who must travel or incur other business expenses on behalf of the university, in order to expedite payment and reduce the need for cash advances. Campuses must prepare written procedures that implement this policy.

The accounts payable manager stated that although the campus applies the required procedures in the systemwide policy, such as performing a final card reconciliation as part of the personnel clearing process and ensuring the proper designation of approving officials, written policies and procedures did not include all of the required elements or were not developed due to oversight.
Incomplete written policies and procedures increase the risk of non-compliance with campus and CSU requirements and potential liability to the university through unallowable or inappropriate purchases.

**Recommendation 1**

We recommend that the campus:

a. Update procurement card policies and procedures to incorporate all information required by systemwide policy.

b. Develop and implement written policies and procedures for the departmental travel card program.

c. Develop and implement written procedures for the personal liability credit card program.

**Campus Response**

a. The campus will update its procurement card policies and procedures to include information required by systemwide policy.

b. The campus will document its policies and procedures for the travel card program.

c. The campus will document its policies and procedures for the personal liability credit card program.

Estimated completion date: May 31, 2013

**CREDIT CARD SETUP AND MAINTENANCE**

**CREDIT CARD SETUP**

Campus procedures for personal liability credit card setup needed improvement.

We found that:

- Personal liability credit card applications were not always approved by the applicant’s supervisor and the unit’s business manager or chair.

- The campus did not document its initial review of cardholder eligibility for personal liability credit cards.

ICSUAM §3103.04, *Corporate Cards*, effective January 1, 2012, states that a staff member may apply for a corporate card if the card has been authorized by their supervisor and the unit’s business manager or chair. It further provides specific requirements for CSU faculty and staff members to be eligible to apply for a corporate card.
The accounts payable manager stated that it is the business practice of the procurement department to obtain the proper approvals on the personal liability credit card applications, and the lack of approval on the cited applications was due to oversight. He further stated that the campus performs a review to determine each cardholder’s eligibility; however, evidence to substantiate the review was not retained due to oversight.

The absence of proper approvals and documented review of cardholder eligibility increases the risk that unqualified individuals will obtain personal liability credit cards.

**Recommendation 2**

We recommend that the campus:

a. Obtain approvals from an applicant’s supervisor and the unit’s business manager or chair on all personal liability credit card applications.

b. Perform and document an initial review of cardholder eligibility for personal liability credit cards.

**Campus Response**

The campus will formally document in the policies and procedures of the personal liability card program its business practice of performing a review of an employee’s eligibility for a personal liability card and obtaining approval of the employee’s supervisor.

Estimated completion date: May 31, 2013

**MAINTENANCE**

The campus did not always retrieve credit cards or close credit card accounts in a timely manner upon a cardholder’s separation from the university.

We reviewed five personal liability credit cards and six procurement cards, and we found that:

- Three personal liability credit cards and one procurement card were not retrieved or canceled in a timely manner after employee separation.

- One personal liability credit card had transactions dated after the cardholder’s separation date.

ICSUAM §3103.04, *Corporate Cards*, effective January 1, 2012, states that corporate cards, or documentation that an account has been closed, must be retrieved from an employee upon an employee’s separation.

EO 760, *Procurement Cards*, dated October 16, 2000, states that personnel clearing procedures must specifically include a final card reconciliation and return of card process.
The accounts payable manager stated that it is the business practice of the accounts payable department to cancel an employee’s credit cards as soon as human resources notifies the department of the employee’s separation, but there can be a delay in this communication.

The lack of timely communication to the accounts payable department of a cardholder’s separation from the campus increases the risk of unauthorized transactions.

**Recommendation 3**

We recommend that the campus ensure that credit cards are retrieved and credit lines are closed in a timely manner upon a cardholder’s separation from the university.

**Campus Response**

The campus will ensure that credit cards are retrieved and credit lines are closed in a timely manner upon a cardholder’s separation from the university.

Estimated completion date: May 31, 2013

**CREDIT CARD MONITORING**

The campus did not monitor the use of personal liability credit cards to ensure that only business-related expenses were incurred and payments were made in a timely manner.

ICSUAM 3103.04, *Corporate Cards*, effective January 1, 2012, states that corporate cards may only be used for bona fide business expenses that directly serve the university. CSU faculty or staff may not use corporate cards for personal expenses.

The accounts payable manager stated that the campus relied on the signed US Bank cardholder agreement, which stated that the personal liability credit card would only be used for business-related expenses. He further stated that the systemwide policy does not specifically require that the campus monitor the use of the card; therefore, the campus relied on cardholders to adequately monitor use and payment.

Inadequate monitoring of personal liability credit card purchases increases the risk of inappropriate personal use, and late payments on personal liability credit cards may decrease the campus’ financial benefits from the procurement card contract.

**Recommendation 4**

We recommend that the campus monitor the use of personal liability credit cards to ensure that only business-related expenses are incurred and payments are made in a timely manner.
Campus Response

The accounts payable manager will reiterate to staff to monitor the use of personal liability cards for business-related only and that payments are made in a timely manner.

Estimated completion date: May 31, 2013
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leslie E. Wong</td>
<td>President</td>
</tr>
<tr>
<td>Edward Baumgarten</td>
<td>Property Clerk, Procurement Department</td>
</tr>
<tr>
<td>David Chelliah</td>
<td>Accounts Payable Manager, Accounts Payable</td>
</tr>
<tr>
<td>Taver Chong</td>
<td>Associate Internal Auditor, Internal Audit</td>
</tr>
<tr>
<td>Nancy Hayes</td>
<td>Vice President and Chief Financial Officer, Administration and Finance</td>
</tr>
<tr>
<td>Arsenio G. Herrera</td>
<td>Senior Programmer, Fiscal Affairs Business Systems</td>
</tr>
<tr>
<td>Wanda Humphrey</td>
<td>Payroll Manager, Human Resources, Safety and Risk Management</td>
</tr>
<tr>
<td>Jason Huynh</td>
<td>Procurement Card Administrator, Accounts Payable</td>
</tr>
<tr>
<td>Michael Lam</td>
<td>Lead Information Technology Consultant, Fiscal Affairs Business Systems</td>
</tr>
<tr>
<td>Franz Lozano</td>
<td>Budget Officer, Budget Administration and Operations</td>
</tr>
<tr>
<td>Melissa Naranjo</td>
<td>Procurement Card Coordinator, Accounts Payable</td>
</tr>
<tr>
<td>Mirna Vasquez</td>
<td>Procurement Card Technician, Accounts Payable</td>
</tr>
<tr>
<td>Agnes Wong-Nickerson</td>
<td>Associate Vice President, Fiscal Affairs</td>
</tr>
</tbody>
</table>
May 3, 2013

Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, California 90802-4275

Dear Larry:

We have reviewed Audit Report #13-24, Credit Cards, from your office and are providing our responses to the recommendations electronically as requested.

Questions regarding the responses should be directed to Nancy K. Hayes, Vice President and CFO, Administration and Finance at (415) 338-2521 or to Franz Lozano, Acting Internal Auditor at (415) 405-3736.

Sincerely,

Dr. Les Wong
President

FL/cd

Attachment

cc: Nancy K. Hayes, Vice President and CFO, Administration and Finance
    Agnes Wong Nickerson, Associate Vice President, Fiscal Affairs
    David Chelliah, Acting Manager, Accounts Payable, Fiscal Affairs
    Franz Lozano, Internal Auditor
CREDIT CARDS
SAN FRANCISCO STATE UNIVERSITY
Audit Report 13-24

GENERAL ENVIRONMENT

Recommendation 1

We recommend that the campus:

a. Update procurement card policies and procedures to incorporate all information required by systemwide policy.

b. Develop and implement written policies and procedures for the departmental travel card program.

c. Develop and implement written procedures for the personal liability credit card program.

Campus Response

a. The campus will update its procurement card policies and procedures to include information required by systemwide policy.

b. The campus will document its policies and procedures for the travel card program.

c. The campus will document its policies and procedures for the personal liability card program.

Estimated completion date: May 31, 2013

CREDIT CARD SETUP AND MAINTENANCE

CREDIT CARD SETUP

Recommendation 2

We recommend that the campus:

a. Obtain approvals from an applicant’s supervisor and the unit’s business manager or chair on all personal liability credit card applications.

b. Perform and document an initial review of cardholder eligibility for personal liability credit cards.
Campus Response

The campus will formally document in the policies and procedures of the personal liability card program its business practice of performing a review of an employee’s eligibility for a personal liability card and obtaining approval of the employee’s supervisor.

Estimated completion date: May 31, 2013

MAINTENANCE

Recommendation 3

We recommend that the campus ensure that credit cards are retrieved and credit lines are closed in a timely manner upon a cardholder’s separation from the university.

Campus Response

The campus will ensure that credit cards are retrieved and credit lines are closed in a timely manner upon a cardholder’s separation from the university.

Estimated completion date: May 31, 2013

CREDIT CARD MONITORING

Recommendation 4

We recommend that the campus monitor the use of personal liability credit cards to ensure that only business-related expenses are incurred and payments are made in a timely manner.

Campus Response

The accounts payable manager will reiterate to its staff to monitor the use of personal liability cards for business-related only and that payments are made in a timely manner.

Estimated completion date: May 31, 2013
May 23, 2013

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 13-24 on Credit Cards,
         San Francisco State University

In response to your memorandum of May 23, 2013, I accept the response as submitted with the draft final report on Credit Cards, San Francisco State University.

TPW/amd